

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 SP-02 USIA-15 AID-05 EB-08 NSC-05

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01

ABF-01 AGRE-00 /106 W

-----080906Z 068991 /10

R 080802Z MAR 77

FM AMEMBASSY BERN

TO SECSTATE WASHDC 4002

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USMISSION GENEVA

USDEL MTN GENEVZ

AMCONSUL ZURICH

UNCLAS BERN 0930

PASS TREASURY AND FRB

EO 11652: NA

TAGS: EFIN SZ

SUBJ: SWISS FINANCIAL REPORT: WEEK FEB 27 - MAR 5

1. SUMMARY: EVENTS WERE DOMINATED BY RAPID RISE
IN DOLLAR RATE AGAINST SWISS FRANC WHICH BEGAN PREVIOUS WEEK
AND SAW DOLLAR RISE TO SF 2.57 MAR 1. DOLLAR DECLINED TO
SF 2.54 AFTER SWISS NATIONAL BANK MOVED TO CALM THE MARKET.
GODL PRICE ROSE TO SF 145. SNB PRES LEUTWILER SAID SWISS WOULD
INTERVENE ONLY TO MAINTAIN ORDERLY MARKET AND DISCOUNTED
PREDICTIONS OF SHARP FRANC DEPRECIATION THIS YEAR. SNB HELPED
BANKS MEET MONTH-END LIQUIDITY REQUIREMENTS. SNB BALANCE
SHEET TOTAL ROSE SLIGHTLY IN FEB. END SUMMARY.

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2. FOREIGN EXCHANGE AND GOLD. DOLLAR RATE AGAINST SWISS FRANC
ROSE APRUPTLY TO SF 2.57 TURSDAY IN HECTIC MARKET WHICH
PROMPTED SNB TO ANNOUNCE IT WOULD INTERVENE TO MAINTAIN ORDER.
MARKET CALMED AND DOLLAR RETURNED TO SF 2.54 FRIDAY. RATE
FOR DM 100 ROSE TO SF 107 TUESDAY BUT CLOSED SF 106 FRIDAY.
SNB SOLD DOLLARS UNDER CAPITAL EXPORT CONVERSION RULE BUT DID

NOT COVER SALES FULLY BY DOLLAR PURCHASES. SNB ATTRIBUTED MARKET DEVELOPMENT TO INTEREST RATE DIFFERENTIALS AND SPECULATORS MOVING OUT OF DECLINING FRANC. BANKERS NOTED SWISS TRADE DEFICIT AND "TECHNICAL FACTORS". DAM AND GILDER WERE PARTICULARLY ATTRACTIVE LAST WEEK; FRENACH FRANC, STERLING, AND LIRA ALSO HELD UP WELL. GOLD PRICE ROSE TO 145, ATTRIBUTED TO ABSENCE OF SOVIET GOLD FROM THE MARKET AND NO INCREASE FROM OTHER PRODUCERS. RATES FOLLOW:

	2/28(OPEN)	3/4(CLOSE)
SPOT DOLLAR	2.5430	2.5420
FORWARD DISCOUNTS (PCT P A)		
ONE MONTH	2.68	2.50
2 MONTHS	2.46	2.48
3 MONTHS	2.74	2.55
6 MONTHS	2.89	2.71
12 MONTHS	3.05	2.91
SF/DM	106.22	106.47
GOLD	141.25	145

3. SNB VIEWS: SNB PRES LEUTWILER EXPRESSED SURPRISE AT SUDDEN SHARP RISE IN DOLLAR RATE DESPITE US TRADE DEFICIT AND COLD WEATHER IMPACT ON US ECONOMY. HE SAID THERE APPEARED TO BE OVER-REACTION TO PREDICTION OF FRANC DECLINE BY SOME US OBSERVERS. NOTING THAT SWISS OVERSHOT 1976 MONEY SUPPLY TARGET, LEUTWILER DISCOUNTED RETURN OF HIGH INFLATION OVER SHORT TERM BUT EXPRESSED NEED FOR LONGER-TERM CAUTION. THOUGH INCREASED INFLATION COULD DEPRESS FRANC EXCHANGE RATE, IT WOULD ALSO PUSH UP INTEREST RATES AND DEMAND FOR FRANC.

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LEUTWILER SAID SNB INTERVENTIONS WERE AIMED AT STABILIZING MAREKT, NOT TO LOWER FRANC RATE, AND DID NOT COVER DOLLAR SALES UNDER CAPITAL EXPORT CONVERSION RULE. HE DID NOT RULE OUT SNB DOLLAR SALES TO MAINTAIN ORDERLY MARKET. SAID IT TOO SOON REMOVE RESTRICTIONS ON CAPITAL INFLOWS.

4. CAPITAL AND MONEY MARKETS: CALL MONEY RATE, THOUGH DOWN TO ONE PERCENT MAR 4 FROM 2 PERCENT PREVIOUS WEEK, STILL REFLECTS BANKS' DESIRE FOR LIQUIDITY. SNB PROVIDED BANKS WITH SOME SF 3 BILLION IN SWAPS AND CREDITS WHILE GIRO CLEARING ACCOUNTS ROSE BY SF 1.5 BILLION DURING LAST 3 BUSINESS DAYS OF FEB. STOCK PRICES GENERALLY EASED: SKA INDEX (1959 EQUALS 100) DECLINED TO 222.70 MAR 4. WORLD BANK ANNOUNCED LOAN OF SF 200 MILLION AT 5.25 PCT INTEREST AND KOBENHAVNS AMTSKOMMUNE PLANS BORROW SF 50 MILLION AT 5.75 PERCENT ON SWISS MARKET. VARIOUS FIRST CLASS SWISS BORROWERS WILL PAY 4 TO 4.75 PCT ON SF 175 MILLION DURING FIRST HALF MAR. SNB HAS AGREED TO UK USING SWISS FRANCS IN ITS PLAN TO ISSUE MED-TERM FOREIGN CURRENCY BONDS IN CONNECTION WITH \$3 BILLION SAFETY NET FOR

STERLING BALANCES, PROVIDED BOND PLACEMENTS ARE NON-NEGOTIABLE
AND MADE IN SWITZERLAND BY OFFICIAL STERLING HOLDERS.

5. SNB BALANCE SHEET END FEB: BALANCE SHEET TOTAL WAS UP SF
680 MILLION FROM END JAN, REFLECTING SWAP AND CREDIT ASSISTANCE
TO HELP BANKS MEET END FEB LIQUIDITY DEMANDS. SNB ALSO FREED
SF 243 MILLION FOREIGN EXCHANGE RESERVES HELD BY BANKS TO
COVER FOREIGN LIABILITIES.

FEB 28 (CHANGE FROM JAN 31)
(MILLIONS OF SWISS FRANCS)

ASSETS

GOLD	11,904	-	-	
FOREIGN EXCHANGE	13,552	UP	387	
ROOSA BONDS	5,046	DOWN	88	
DISCOUNTED PAPER	545	UP	239	
LOMBARD LOANS	444	UP	169	
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OTHER	561	DOWN	27
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LIABILITIES

NOTES IN CIRCULATION	18,649	UP	10
GIRO ACCOUNTS	6,971	UP	193
RESERVES (FOREIGN LIABILITIES)	-	DOWN	243
OTHER	6,432	UP	720
BALANCE SHEET TOTAL	32,052	UP	680. DAVIS

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Disposition Approved on Date:
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Disposition Event:
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Disposition Reason:
Disposition Remarks:
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